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OP-ED COLUMNIST

Stopping the Bum's Rush

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The people who hustled America into a tax cut to eliminate an imaginary budget surplus and a war to eliminate imaginary weapons are now trying another bum's rush. If they succeed, we will do nothing about the real fiscal threat and will instead dismantle Social Security, a program that is in much better financial shape than the rest of the federal government.

In the next few weeks, I'll explain why privatization will fatally undermine Social Security, and suggest steps to strengthen the program. I'll also talk about the much more urgent fiscal problems the administration hopes you won't notice while it scares you about Social Security.

Today let's focus on one piece of those scare tactics: the claim that Social Security faces an imminent crisis.

That claim is simply false. Yet much of the press has reported the falsehood as a fact. For example, The Washington Post recently described 2018, when benefit payments are projected to exceed payroll tax revenues, as a "day of reckoning."

Here's the truth: by law, Social Security has a budget independent of the rest of the U.S. government. That budget is currently running a surplus, thanks to an increase in the payroll tax two decades ago. As a result, Social Security has a large and growing trust fund.

When benefit payments start to exceed payroll tax revenues, Social Security will be able to draw on that trust fund. And the trust fund will last for a long time: until 2042, says the Social Security Administration; until 2052, says the Congressional Budget Office; quite possibly forever, say many economists, who point out that these projections assume that the economy will grow much more slowly in the future than it has in the past.

So where's the imminent crisis? Privatizers say the trust fund doesn't count because it's invested in U.S. government bonds, which are "meaningless i.o.u.'s." Readers who want a long-form debunking of this sophistry can read my recent article in the online journal The Economists' Voice (www.bepress.com/ev).

The short version is that the bonds in the Social Security trust fund are obligations of the federal government's general fund, the budget outside Social Security. They have the same status as U.S. bonds owned by Japanese pension funds and the government of China. The general fund is legally obliged to pay the interest and principal on those bonds, and Social Security is legally obliged to pay full benefits as long as there is money in the trust fund.

There are only two things that could endanger Social Security's ability to pay benefits before the trust fund runs out. One would be a fiscal crisis that led the U.S. to default on all its debts. The other would be legislation specifically repudiating the general fund's debts to retirees.

That is, we can't have a Social Security crisis without a general fiscal crisis - unless Congress declares that debts to foreign bondholders must be honored, but that promises to older Americans, who have spent most of their working lives paying extra payroll taxes to build up the trust fund, don't count.

Politically, that seems far-fetched. A general fiscal crisis, on the other hand, is a real possibility - but not because of Social Security. In fact, the Bush administration's scaremongering over Social Security is in large part an effort to distract the public from the real fiscal danger.

There are two serious threats to the federal government's solvency over the next couple of decades. One is the fact that the general fund has already plunged deeply into deficit, largely because of President Bush's unprecedented insistence on cutting taxes in the face of a war. The other is the rising cost of Medicare and Medicaid.

As a budget concern, Social Security isn't remotely in the same league. The long-term cost of the Bush tax cuts is five times the budget office's estimate of Social Security's deficit over the next 75 years. The botched prescription drug bill passed in 2003 does more, all by itself, to increase the long-run budget deficit than the projected rise in Social Security expenses.

That doesn't mean nothing should be done to improve Social Security's finances. But privatization is a fake solution to a fake crisis. In future articles on this subject I'll explain why, and also outline a real plan to strengthen Social Security.